

VZCZCXRO8449
PP RUEHCD RUEHGD RUEHHO RUEHMC RUEHNG RUEHTM
DE RUEHLP #1332/01 1371825
ZNR UUUUU ZZH
P 171825Z MAY 06
FM AMEMBASSY LA PAZ
TO RUEHC/SECSTATE WASHDC PRIORITY 9230
INFO RUEHZI/WHA POSTS COLLECTIVE
RHEHNSC/NSC WASHINGTON DC
RHEBAAA/DEPT OF ENERGY WASHINGTON DC
RUCPDOC/DEPT OF COMMERCE WASHINGTON DC
RUEATRS/DEPT OF TREASURY WASHINGTON DC

UNCLAS SECTION 01 OF 04 LA PAZ 001332

SIPDIS

SENSITIVE
SIPDIS

STATE FOR WHA/AND
TREASURY FOR SGOOCH
ENERGY FOR CDAY AND SLADISLAW

E.O. 12958: N/A
TAGS: [ECON](#) [ELAB](#) [SMIG](#) [SOCI](#) [PGOV](#) [EINV](#) [EPET](#) [BL](#)
SUBJECT: ECONOMIC ROOTS OF BOLIVIA'S SOCIAL REVOLUTION

REF: 05 LA PAZ 3065

11. (SBU) Summary: Economic factors, which have fed the growing political disaffection of Bolivia's majority poor, have helped fuel the country's rolling "social revolution." Take persistent poverty. The percentage of Bolivia's population living below the poverty line has remained virtually unchanged (over 60%) through the past decades' "neo-liberal" reforms, and even increased during the economic crisis of 1999-2003. Unemployment, too, spiked during the crisis and remains untenably high. Marked social and economic inequality -- which has a rural-urban, a regional and also a distinctly racial dimension -- is another decisive factor, and has spurred significant migration to cities such as El Alto, Santa Cruz, and Tarija in the past decade. This urban migration, in turn, has strained the underdeveloped infrastructures of these cities, and left new urban dwellers clamoring for access to basic services. In combination, these factors have undermined the faith of many Bolivians in the old economic and political order and reinforced public support for the Morales administration and its "new" economic experiment. They also explain why President Morales' populist promises to Bolivia's poor, especially nationalization of hydrocarbons and other natural resources, will probably continue to buy him popular support, at least in the short term. End Summary.

Bolivia's Social Revolution

12. (U) Many observers mark the beginning of Bolivia's ongoing social revolution with the infamous Cochabamba "water wars" of May 2000 in which thousands of protesters forced the GOB to take over the Bechtel-operated Cochabamba water system. That event combined key economic factors with the growing political disaffection of Bolivia's majority and largely indigenous poor into an explosive and still largely unresolved mix. In February 2002 and October 2003, massive protests against a proposed income tax, plans to sell natural gas to Chile, and unfulfilled campaign promises to provide jobs led to the ousting of President Gonzalo ("Goni") Sanchez de Lozada. In June 2005, Goni's replacement, Carlos Mesa, resigned from the presidency in the face of widespread protests, partly over the government's management of Bolivia's vast natural gas resources. In January 2006, after the transition administration of Eduardo Rodriguez, Evo Morales, Bolivia's first indigenous president, was elected on campaign promises to nationalize Bolivia's gas industry, "refund" the state in a Constituent Assembly, and transform the supposedly failed "neo-liberal" economic order for the benefit of Bolivia's forgotten majority.

Neo-liberal Reforms Did Not Meet Expectations

13. (U) Persistent poverty has been one of Bolivia's most damning problems. Approximately two-thirds of Bolivia's roughly nine million people live below the poverty line. Notwithstanding the promises of politicians, this poverty was largely impervious to the liberal reforms of the late 80s and 90s. According to a recent news article on Bolivia's relationship with the IMF, "Bolivia has the best rate of structural reforms in Latin America, but maintains a low growth rate per capita and has made almost no advance in the reduction of poverty." Former Central Bank President Juan Antonio Morales also noted that Bolivia's neo-liberal reforms had facilitated four percent annual growth until the economic crisis of 1999, but that such growth was still insufficient to keep up with population growth. The result: a per capita GDP that was lower in 2000 (USD 910) than it had been in 1980 (USD 961). Although liberal reforms pulled Bolivia out of its dire macro-economic straits in the mid 1980s (with inflation of close to 12,000 percent), they clearly failed to meet public expectations for increased incomes and jobs. In fact, reforms had a palpably negative effect on jobs in the short term, immediately causing a 17 percent drop in public sector employment and triggering the dismissal of thousands of public sector miners when resource draining state-owned mining enterprises were shut down.

Increasing Poverty? Yes and No

14. (U) The viability of the liberal economic reforms, which gave Bolivia macro-economic stability and a platform for increased private investment, suffered a direct hit during the 1999-2003 regional economic crisis. The perception that

LA PAZ 00001332 002 OF 004

the large amounts of foreign direct investment Bolivia received between 1997 and 2003 as a result of privatization benefited the rich and not the poor was heightened by the economic crisis. This perception was not altogether inaccurate. First off, poverty rates, as measured by income, spiked. The National Statistics Institute's (INE) 2004 Annual Statistics journal indicates that the percentage of Bolivia's population below the poverty line (USD 1.20/day) increased from 63 percent to 67 percent in that period. According to INE, the rise in urban poverty during those years, from 51 percent to 60 percent, was even more striking. That 63% of Bolivians live in cities aggravated the impact of this rise. Moreover, those city dwellers living in extreme poverty (USD 0.77 or less per day) also increased, from 24 percent to 29 percent. Per capita income also declined during that period and only began returning to pre-crisis levels in late 2004 and 2005, by which time the unleashed energies of social protesters had become virtually unstoppable.

15. (U) Bolivian poverty specialist Luis Leonardo Tellez told us INE has two ways of measuring poverty, and that the results differ depending on which measuring tool is used. He explained that poverty, measured by income (which includes non-monetary income), has increased during the past decade, but that poverty, measured by unfulfilled basic needs, i.e., housing, water, sanitation services, electricity, health, and education, has diminished. Tellez attributed the improvement in meeting basic needs to housing subsidies, the national health program, NGO efforts to improve health, and the GOB's rural electrification program supported by multilateral funds. He also noted it was thanks to massive rural to urban migration, which has given many poor Bolivians from undeveloped rural areas access to better (if still insufficient) education and health care once they reach the cities. Tellez' assertion is supported by Bolivian census figures, which show that 85 percent of the population had unsatisfied basic needs in 1976, 71 percent in 1992, and 59 percent in 2001. A 2002 INE household survey indicated a small spike in the percentage of unmet basic needs, to 61

percent.

Unemployment

¶6. (U) The regional crisis also took a toll on unemployment. According to one official report, unemployment rose from 4.4 percent in 1997 to 9 percent in 2002, where it remained in 2003 and 2004. However, this measure of urban unemployment vastly underestimates total unemployment, for which there are no good statistics. A declaration of Bolivian factory workers stated that unemployment had reached 13 percent of the economically active population by the end of 2005. Many analysts estimate it is higher still, and alarmingly high once underemployment is factored in. According to one urban analyst, in the conflictive indigenous city of El Alto, only a small fraction of the ten thousand new high school and university graduates who flood into the city's employment market each year find full-time jobs. This expanding pool of unemployed and under-employed young people with little to lose was a central, volatile element in the successive crises that forced the resignations of President Gonzalo Sanchez de Lozada in October 2003 and President Carlos Mesa in June ¶2005.

Regional and Racial Inequality

¶7. (U) Marked inequalities have also played a decisive role in Bolivia's social and political crisis. In addition to being reflected in a significant (and some statistics suggest growing) income gap between rich and poor, these inequalities have a clear rural-urban, a growing regional, and a distinctly racial dimension. According to INE statistics, the wealthiest 10 percent of the Bolivian population have 37 times more wealth than the poorest 10 percent (as compared with the United States, where the top 10 percent have 16 times more wealth than the poorest 10 percent). Rural-urban disparities are reflected in INE's 2002 household survey figures, which indicate that average annual per capita income in urban areas was USD 966 but only USD 292 in rural areas. According to INE, 90 percent of the population in urban areas have electricity, while only 29 percent do in rural areas. In rural areas, sixty percent of families do not have bathrooms. In urban areas, 86 percent of families get their drinking water from a pipe (either in the home or outside),

LA PAZ 00001332 003 OF 004

while only 33 percent in rural areas do so -- with the rest taking water directly from rivers or wells. Seventy-five percent of the rural population rely on firewood for cooking, compared to eight percent in urban areas.

¶8. (U) Regional disparities, particularly between the wealthier eastern lowlands and the poorer western highlands, are particularly acute. For example, in 2001 the percentage of the population with unmet basic needs in the eastern department of Santa Cruz (Bolivia's economic center) was 38 percent, while in Potosi (Bolivia's poorest region) it was 79 percent. Additionally, average annual household income in the city of Santa Cruz was two and one half times higher than that of El Alto in 2004, according to INE.

¶9. (U) There is also a strong -- but not automatic -- correlation of wealth and poverty with race, which is partly linked to the urban-rural and regional divisions. Most of Bolivia's majority poor, for example, are of mixed or indigenous origin. Many of the country's wealthiest families, by contrast, are of conspicuously European descent. These apparently race-based social and economic differences have exacerbated the sense of racial separation, and amount, in the view of some critics, to a kind of de facto economic apartheid. (Comment: In Bolivia's 1952 revolution, Bolivia's "indigenous" peoples acquired full legal, political and civil rights. Equal economic and social opportunities, however, have been more elusive. End Comment.) Although "indigenous" and "white" are malleable, subjective terms and most Bolivians are of mixed European-indigenous blood, the

correlation between language, skin-color, ethnic identity, and socio-economic status remains difficult to deny. Moreover, growing ethnic consciousness has fed increasing "indigenous" resentment of the dominant "white" minority and the political system that allegedly sustained it.

Migration/Lack of Services

¶10. (U) These inequalities have fueled the massive migration from rural areas to cities such as El Alto, Santa Cruz, and Tarija. According to INE statistics, between 1999 and 2003 over half a million people -- or 10 percent of the current urban population -- migrated to cities. El Alto, Santa Cruz, and Tarija experienced particularly high annual growth rates, according to INE data available for the decade 1992-2001, of 5.1 percent, 5.1 percent, and 3.7 percent respectively. In 1992, El Alto's population numbered around 395,000. By 2001 (the year of the most recent census), that number had reached 650,000. Informal estimates put the sprawling altiplano city's population at close to 1 million today. During the same period, Santa's Cruz' population mushroomed from 692,000 to 1,136,000. According to Santa Cruz civic leaders, 100,000 Bolivians, most of them from the western highlands, continue to arrive to seek a better life in the lowlands capital each year. Meanwhile, Tarija's population trend is moving in the same direction. According to UNDP Project Manager Gonzalo Calderon, 300 people are moving there each day.

¶11. (U) This massive rural to urban migration, in turn, has strained the underdeveloped infrastructures of these cities, and often left new urban dwellers without access to basic services. Even as anecdotal evidence indicates that overall services access has improved during the past decade, keeping up with the explosive urban growth is all but impossible and reaching recent urban migrants is a particular challenge. Part of the problem is rooted in basic economic laws. Because prices remain low and service providers are reluctant to raise them for fear of protests (see Cochabamba water war), insufficient earnings make investing in the expansion of those services difficult, which creates a vicious cycle. According to INE, only 50 percent of households in urban areas have sewage hookups. Fourteen percent of city dwellers have no access (neither in home nor outside) to drinking water from city water networks, while 47 percent get drinking water from city water pipes outside of their homes. Only two percent of urban households have natural gas or electricity hookups for cooking, while 86 percent rely on liquid petroleum gas (LPG) and 8 percent use firewood. An LPG shortage in September and October of 2005 led to daily street protests and blockades (reftel). Potential LPG shortages (although the result of perverse government economic incentives) and the lack of in-home gas hookups have created popular support for the Morales administration's plans to gain control of the hydrocarbons industry to "ensure that

LA PAZ 00001332 004 OF 004

domestic needs are met."

¶12. (SBU) The heightened expectations of newly arrived urban dwellers also feed the dynamic of frustration. Although new city dwellers generally have better service access than they did in the countryside, they also feel an increased sense of relative deprivation due to the wealth they see around them. So while "better off" in an absolute sense than they were before, they increasingly view access to such services as water, gas, and electricity as a right that the political and social system owes them -- a right they are willing to take to the streets to demand.

Comment

¶13. (SBU) In combination, these essentially economic factors have undermined the faith of many Bolivians in the old social and political order. They have also fueled public support for the Morales administration and its "new" economic experiment. If the old order worked for so few, the popular

logic goes, what is there to lose in seeking to create a different one? While President Morales' populist promises may represent more a retread of a failed "old" approach than a genuinely "new" one, they will probably continue to buy him popular support in the short term, in part because the traditional political order is seen as having failed so absolutely. That said, it is hard to see how the current government will avoid a collision with the same stubborn economic obstacles that proved so difficult for its predecessors. When that happens, more popular disappointment and frustration, and also renewed social and political turmoil, will certainly follow. End comment.

ROBINSON